

CITY OF PAULLINA
INDEPENDENT AUDITOR'S REPORTS

FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

David A. Maske
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Spencer, Iowa 51301

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CITY OF PAULLINA, IOWA

OFFICIALS

(Before January, 2004)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Donald Dawson	Mayor	January 2004
Patrick Hill	Mayor Pro-Tem	January 2004
David Honkomp	Council Member	January 2004
John Ihle	Council Member	January 2004
David Pauling (Resigned)	Council Member	
Ed Bettin	Council Member	January 2006
Garth Hurley (Appointed)	Council Member	January 2004

(After January, 2004)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul Struve	Mayor	January 2006
Patrick Hill	Mayor Pro-Tem	January 2008
David Honkomp	Council Member	January 2008
John Ihle	Council Member	January 2008
Ed Bettin	Council Member	January 2006
Garth Hurley	Council Member	January 2006
Sandy Fritz	City Clerk/Administrator	January 2006
Johnene Altman	Treasurer	January 2005
Roger Bindner	Attorney	January 2005

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits, contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Paullina, as of June 30, 2004 and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 9 during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated August 2, 2004 on my consideration of the City of Paullina's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 3 through 6 and 15 are not required parts of the basic financial statements, but are supplementary information required by the governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Paullina's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applies in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.

DAVID A. MASKE
Certified Public Accountant

August 2, 2004
Spencer, Iowa

CITY OF PAULLINA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004

The City of Paullina provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2004 FINANCIAL HIGHLIGHTS

- Receipts of the City-wide activities decreased 29.07%, or approximately \$687,417 from fiscal 2003 to fiscal 2004.
- Disbursements decreased 31.5%, or approximately \$809,077 in fiscal 2004 from fiscal 2003.
- The City's total cash basis net assets increased less than 1%, or approximately \$936 from June 30, 2003 to June 30, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The City's Financial Statement consists of a Statement of Receipts, Disbursements and Cash Balances. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the City's funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Receipts, Disbursements and Changes in Cash Balances reports information which helps answer this question.

The Statement of Receipts, Disbursements and Changes in Cash Balances presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the Water Fund, Electric Fund, Sewer Fund and Telecom Fund considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$674,799 to \$650,638. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 96,680	\$ 88,145
General Receipts		
Property tax	211,872	212,448
Special assessments	75,451	86,484
Tax increment financing collections	17,614	16,457
Local option sales tax	73,613	74,835
Intergovernmental	103,234	116,254
Use of money and property	21,065	25,822
Licenses and permits	3,624	761
Other general receipts	60,055	40,925
Net transfers	<u>13,244</u>	<u>11,424</u>
Total receipts and transfers	<u>\$ 676,452</u>	<u>\$ 673,555</u>
Disbursements:		
Public safety	\$ 228,346	\$ 161,320
Public works	202,675	184,518
Health and social services	3,750	-0-
Culture and recreation	80,087	76,330
Community and economic development	368	8,801
General government	67,830	61,439
Debt service	117,557	91,368
Capital projects	-0-	9,994
Total disbursements	<u>\$ 700,613</u>	<u>\$ 593,770</u>
Increase (decrease) in cash basis net assets	\$ (24,161)	\$ 79,785
Cash basis net assets beginning of year	<u>674,799</u>	<u>595,014</u>
Cash basis net assets end of year	<u>\$ 650,638</u>	<u>\$ 674,799</u>

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Operating receipts:		
Water	\$ 164,441	\$ 122,888
Electric	556,679	596,310
Sewer	93,213	96,144
Telecom	169,626	2,690
Interest	30,208	50,929
Net bond proceeds	84,480	-0-
Total	<u>\$ 1,098,647</u>	<u>\$ 868,961</u>
Disbursements:		
Operating disbursements:		
Water	\$ 135,525	\$ 132,970
Electric	549,813	506,941
Sewer	95,137	113,954
Telecom	111,061	149,251
Debt service	168,770	239,410
Net transfers out	13,244	11,424
Total	<u>\$ 1,073,550</u>	<u>\$ 1,153,950</u>
Net change in cash balance	\$ 25,097	\$ (284,989)
Cash basis net assets beginning of year	<u>1,235,061</u>	<u>1,520,050</u>
Cash basis net assets end of year	<u>\$ 1,260,158</u>	<u>\$ 1,235,061</u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Paullina completed the year, its governmental funds reported a combined fund balance of \$650,638, a decrease of \$24,161 below last year's total of \$674,799. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$28,953 from the prior year to \$209,398.
- The Road Use Tax Fund cash balance decreased by \$1,688 to \$195,575 during the fiscal year.
- The Urban Renewal Tax Increment Fund cash balance increased by \$2,729 to \$12,706 during the year.
- The Debt Service Fund cash balance increased by \$1,482 to \$210,112 during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$24,799 to \$146,105
- The Electric Fund cash balance decreased by \$126,696 to \$765,686.
- The Sewer Fund cash balance decreased by \$7,953 to \$85,185.
- The Telecom Fund cash balance increased by \$265,132 to \$263,182.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

A comparison of the City's debt at June 30, 2004 to June 30, 2003 follows:

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
G.O. bonds and notes	\$ 385,000	\$ 465,000
Special assessment notes	80,000	90,000
Sewer revolving loan notes	188,000	230,000
Electric revenue notes	1,025,000	1,085,000
Telecommunication:		
Temporary financing	-0-	840,000
Revenue notes	950,000	-0-
Total	<u>\$ 2,628,000</u>	<u>\$ 2,710,000</u>

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandy Fritz, City Clerk, Paullina, Iowa.

BASIC FINANCIAL STATEMENTS

City of Paullina
Statement of Activities and Net Assets - Cash Basis
For the year ended June 30, 2004

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions / Programs:			
Governmental activities:			
Public safety	\$ 228,346	\$ -0-	\$ -0-
Public works	202,675	96,680	93,615
Health and social services	3,750	-0-	-0-
Culture and recreation	80,087	9,604	-0-
Community and economic development	368	-0-	-0-
General government	67,830	3,624	9,619
Debt service	<u>117,557</u>	<u>-0-</u>	<u>-0-</u>
Total governmental activities	<u>\$ 700,613</u>	<u>\$ 109,908</u>	<u>\$ 103,234</u>
Business type activities			
Water	\$ 135,525	\$ 168,524	\$ -0-
Sewer	146,774	93,213	-0-
Electric	666,946	582,581	-0-
Telecom	<u>111,061</u>	<u>169,849</u>	<u>-0-</u>
Total business type activities	<u>\$ 1,060,306</u>	<u>\$ 1,014,167</u>	<u>\$ -0-</u>
Total	<u>\$ 1,760,919</u>	<u>\$ 1,124,075</u>	<u>\$ 103,234</u>
General Receipts:			
Property tax levied for:			
General purposes			
Tax increment financing			
Debt service			
Local option sales tax			
Grants and contributions not restricted to specific purpose			
Unrestricted interest on investments			
Bond proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted			
Streets			
Urban renewal purpose			
Debt service			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (228,346)	\$ -0-	\$ (228,346)
(12,380)	-0-	(12,380)
(3,750)	-0-	(3,750)
(70,483)	-0-	(70,483)
(368)	-0-	(368)
(54,587)	-0-	(54,587)
<u>(117,557)</u>	<u>-0-</u>	<u>(117,557)</u>
<u>\$ (487,471)</u>	<u>\$ -0-</u>	<u>\$ (487,471)</u>
\$ -0-	\$ 32,999	\$ 32,999
-0-	(53,561)	(53,561)
-0-	(84,365)	(84,365)
<u>-0-</u>	<u>58,788</u>	<u>58,788</u>
<u>\$ -0-</u>	<u>\$ (46,139)</u>	<u>\$ (46,139)</u>
<u>\$ (487,471)</u>	<u>\$ (46,139)</u>	<u>\$ (533,610)</u>
\$ 201,748	\$ -0-	\$ 201,748
17,614	-0-	17,614
85,575	-0-	85,575
73,613	-0-	73,613
21,065	-0-	21,065
-0-	84,480	84,480
50,451	-0-	50,451
<u>13,244</u>	<u>(13,244)</u>	<u>-0-</u>
<u>\$ 463,310</u>	<u>\$ 71,236</u>	<u>\$ 534,546</u>
\$ (24,161)	\$ 25,097	\$ 936
<u>674,799</u>	<u>1,235,061</u>	<u>1,909,860</u>
<u>\$ 650,638</u>	<u>\$ 1,260,158</u>	<u>\$ 1,910,796</u>
\$ -0-	\$ -0-	\$ -0-
-0-	-0-	-0-
210,112	747,810	957,922
231,128	-0-	231,128
<u>209,398</u>	<u>512,348</u>	<u>721,746</u>
<u>\$ 650,638</u>	<u>\$ 1,260,158</u>	<u>\$ 1,910,796</u>

City of Paullina
Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Governmental Funds
For the year ended June 30, 2004

	<u>General</u>
Receipts:	
Property tax	\$ 164,002
Tax increment financing collections	-0-
Other city tax	-0-
Licenses and permits	3,624
Use of money and property	18,850
Intergovernmental	9,619
Charges for services	96,680
Special assessments	-0-
Miscellaneous	<u>60,055</u>
Total receipts	<u>\$ 352,830</u>
Disbursements:	
Operating:	
Public safety	\$ 201,489
Public works	107,219
Health and social services	3,750
Culture and recreation	77,049
Community and economic development	368
General government	66,894
Debt service	<u>-0-</u>
Total disbursements	<u>\$ 456,769</u>
Excess (deficiency) of receipts over disbursements	<u>\$ (103,939)</u>
Other financing sources (uses)	
Operating transfers in	\$ 74,986
Operating transfers out	<u>-0-</u>
Total other financing sources (uses)	<u>\$ 74,986</u>
Net change in cash balances	\$ (28,953)
Cash balances beginning of year	<u>238,351</u>
Cash balances end of year	<u><u>\$ 209,398</u></u>
Cash Basis Fund Balances	
Reserved:	
Debt service	\$ -0-
Unreserved:	
General fund	209,398
Special revenue fund	-0-
Capital projects fund	<u>-0-</u>
Total cash basis fund balances	<u><u>\$ 209,398</u></u>

See notes to financial statements.

Special revenue		Debt Service	Other Nonmajor Governmental Funds	Total
Road Use Tax	Urban Renewal Tax Increment			
\$ -0-	\$ -0-	\$ 10,124	\$ 37,746	\$ 211,872
-0-	17,614	-0-	-0-	17,614
-0-	-0-	-0-	73,613	73,613
-0-	-0-	-0-	-0-	3,624
-0-	115	1,946	154	21,065
93,615	-0-	-0-	-0-	103,234
-0-	-0-	-0-	-0-	96,680
-0-	-0-	75,451	-0-	75,451
-0-	-0-	-0-	-0-	60,055
<u>\$ 93,615</u>	<u>\$ 17,729</u>	<u>\$ 87,521</u>	<u>\$ 111,513</u>	<u>\$ 663,208</u>
\$ -0-	\$ -0-	\$ -0-	\$ 26,857	\$ 228,346
95,303	-0-	-0-	153	202,675
-0-	-0-	-0-	-0-	3,750
-0-	-0-	-0-	3,038	80,087
-0-	-0-	-0-	-0-	368
-0-	-0-	-0-	936	67,830
-0-	-0-	117,557	-0-	117,557
<u>\$ 95,303</u>	<u>\$ -0-</u>	<u>\$ 117,557</u>	<u>\$ 30,984</u>	<u>\$ 700,613</u>
<u>\$ (1,688)</u>	<u>\$ 17,729</u>	<u>\$ (30,036)</u>	<u>\$ 80,529</u>	<u>\$ (37,405)</u>
\$ -0-	\$ -0-	\$ 31,518	\$ -0-	\$ 106,504
-0-	(15,000)	-0-	(78,260)	(93,260)
<u>\$ -0-</u>	<u>\$ (15,000)</u>	<u>\$ 31,518</u>	<u>\$ (78,260)</u>	<u>\$ 13,244</u>
\$ (1,688)	\$ 2,729	\$ 1,482	\$ 2,269	\$ (24,161)
<u>197,263</u>	<u>9,977</u>	<u>208,630</u>	<u>20,578</u>	<u>674,799</u>
<u>\$ 195,575</u>	<u>\$ 12,706</u>	<u>\$ 210,112</u>	<u>\$ 22,847</u>	<u>\$ 650,638</u>
\$ -0-	\$ -0-	\$ 210,112	\$ -0-	\$ 210,112
-0-	-0-	-0-	-0-	209,398
195,575	12,706	-0-	11,438	219,719
-0-	-0-	-0-	11,409	11,409
<u>\$ 195,575</u>	<u>\$ 12,706</u>	<u>\$ 210,112</u>	<u>\$ 22,847</u>	<u>\$ 650,638</u>

City of Paullina
Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Proprietary Funds
For the year ended June 30, 2004

	<u>Water</u>	<u>Electric</u>	<u>Sewer</u>
Operating Receipts:			
Charges for services	\$ 153,253	\$ 530,329	\$ 91,932
Sales tax	9,404	21,941	749
Refund and reimbursements	1,485	2,307	-0-
Deposits	-0-	1,918	-0-
Miscellaneous	<u>299</u>	<u>184</u>	<u>532</u>
Total operating receipts	<u>\$ 164,441</u>	<u>\$ 556,679</u>	<u>\$ 93,213</u>
Operating Disbursements:			
Business type activities:			
Personal services	\$ 85,177	\$ 161,102	\$ 66,612
Contractual services	7,556	14,891	8,832
Economic development	2,788	1,099	-0-
Purchased current	-0-	228,906	-0-
Services and commodities	24,810	62,001	15,652
Sales tax	9,018	22,680	705
Capital outlay	6,176	57,283	3,336
Deposit refund	<u>-0-</u>	<u>1,851</u>	<u>-0-</u>
Total operating disbursements	<u>\$ 135,525</u>	<u>\$ 549,813</u>	<u>\$ 95,137</u>
Excess (deficiency) of operating receipts over operating disbursements	\$ 28,916	\$ 6,866	\$ (1,924)
Non-operating receipts (disbursements)			
Debt service	\$ -0-	\$ (117,133)	\$ (51,637)
Bond proceeds	-0-	-0-	-0-
Interest on investments	<u>4,083</u>	<u>25,902</u>	<u>-0-</u>
Total	<u>\$ 4,083</u>	<u>\$ (91,231)</u>	<u>\$ (51,637)</u>
Excess (deficiency) of receipts over disbursements	\$ 32,999	\$ (84,365)	\$ (53,561)
Operating transfers in (out)	<u>(8,200)</u>	<u>(42,331)</u>	<u>45,608</u>
Net change in cash balances	\$ 24,799	\$ (126,696)	\$ (7,953)
Cash balances - beginning of year	<u>121,306</u>	<u>892,382</u>	<u>93,138</u>
Cash balances - end of year	<u><u>\$ 146,105</u></u>	<u><u>\$ 765,686</u></u>	<u><u>\$ 85,185</u></u>
Cash Basis Fund Balances			
Reserved for debt services	\$ 41,808	\$ 543,858	\$ 46,653
Unreserved	<u>104,297</u>	<u>221,828</u>	<u>38,532</u>
Total cash basis fund balances	<u><u>\$ 146,105</u></u>	<u><u>\$ 765,686</u></u>	<u><u>\$ 85,185</u></u>

See notes to financial statements.

<u>Telecom</u>	<u>Telecom Project</u>	<u>Total</u>
\$ 155,664	\$ -0-	\$ 931,178
-0-	-0-	32,094
13,870	92	17,754
-0-	-0-	1,918
<u>-0-</u>	<u>-0-</u>	<u>1,015</u>
<u>\$ 169,534</u>	<u>\$ 92</u>	<u>\$ 983,959</u>
\$ 6,128	\$ -0-	\$ 319,019
-0-	-0-	31,279
-0-	-0-	3,887
-0-	-0-	228,906
-0-	-0-	102,463
-0-	-0-	32,403
-0-	104,933	171,728
<u>-0-</u>	<u>-0-</u>	<u>1,851</u>
<u>\$ 6,128</u>	<u>\$ 104,933</u>	<u>\$ 891,536</u>
\$ 163,406	\$ (104,841)	\$ 92,423
\$ (846,615)	\$ -0-	\$ (1,015,385)
931,095	-0-	931,095
<u>105</u>	<u>118</u>	<u>30,208</u>
<u>\$ 84,585</u>	<u>\$ 118</u>	<u>\$ (54,082)</u>
\$ 247,991	\$ (104,723)	\$ 38,341
<u>17,141</u>	<u>(25,462)</u>	<u>(13,244)</u>
\$ 265,132	\$ (130,185)	\$ 25,097
<u>(1,950)</u>	<u>130,185</u>	<u>1,235,061</u>
<u>\$ 263,182</u>	<u>\$ -0-</u>	<u>\$ 1,260,158</u>
\$ 115,491	\$ -0-	\$ 747,810
<u>147,691</u>	<u>-0-</u>	<u>512,348</u>
<u>\$ 263,182</u>	<u>\$ -0-</u>	<u>\$ 1,260,158</u>

CITY OF PAULLINA

Notes to Financial Statements

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Paullina is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services. The City also provides water, sewer, and electrical utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Paullina has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Paullina has no component units.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Telecom Fund accounts for the operations of the telecom system.

C. Measurement Focus and Basis of Accounting

The City of Paullina maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation function.

NOTE 2 - DEPOSITS AND POOLED INVESTMENTS:

The City's deposits at June 30, 2004 were entirely covered by Federal depository insurance, or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments at June 30, 2004; however the City's time deposits were as follows:

Certificates of Deposit	\$ <u>1,317,337</u>
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NOTE 3 - BONDS AND NOTES PAYABLE:

Annual debt service requirements to maturity for general obligation bonds and notes, revolving loan fund loans, special assessment notes and Revenue Capital Loan Notes are as follows:

Year Ending June 30	General Obligation Bonds and Notes		Revolving Loan Fund	
	Principal	Interest	Principal	Interest
2005.....	\$ 80,000	\$ 18,247	\$ 44,000	\$ 7,877
2006.....	45,000	14,287	46,000	6,034
2007.....	50,000	12,293	48,000	4,106
2008.....	55,000	10,040	50,000	2,095
2009.....	55,000	7,510	-0-	-0-
2010.....	55,000	4,930	-0-	-0-
2011.....	15,000	2,295	-0-	-0-
2012.....	15,000	1,545	-0-	-0-
2013.....	15,000	780	-0-	-0-
2014.....	-0-	-0-	-0-	-0-
2015.....	-0-	-0-	-0-	-0-
2016.....	-0-	-0-	-0-	-0-
TOTAL	<u>\$ 385,000</u>	<u>\$ 71,927</u>	<u>\$ 188,000</u>	<u>\$ 20,112</u>

Year Ending June 30	Special Assessment Capital Loan		Electric Revenue Capital Loan Notes Issued 2-1-01	
	Principal	Interest	Principal	Interest
2005.....	\$ 10,000	\$ 4,000	\$ 65,000	\$ 54,192
2006.....	10,000	3,575	70,000	50,975
2007.....	10,000	3,125	70,000	47,475
2008.....	10,000	2,650	75,000	43,940
2009.....	10,000	2,150	80,000	40,115
2010.....	10,000	1,635	80,000	35,995
2011.....	10,000	1,105	85,000	31,835
2012.....	10,000	560	90,000	27,330
2013.....	-0-	-0-	95,000	22,515
2014.....	-0-	-0-	100,000	17,385
2015.....	-0-	-0-	105,000	11,935
2016.....	-0-	-0-	110,000	6,160
TOTAL	<u>\$ 80,000</u>	<u>\$ 18,800</u>	<u>\$ 1,025,000</u>	<u>\$ 389,852</u>

Year Ending June 30	Telecommunications Revenue Capital Loan Notes Issued 4-1-04				Total	
	Principal	Interest	Principal	Interest		
2005.....	\$ 50,000	\$ 32,920	\$ 249,000	\$ 117,236		
2006.....	50,000	35,013	221,000	109,884		
2007.....	55,000	33,937	233,000	100,936		
2008.....	55,000	32,563	245,000	91,288		
2009.....	55,000	30,995	200,000	80,770		
2010.....	55,000	29,235	200,000	71,795		
2011.....	60,000	27,338	170,000	62,573		
2012.....	60,000	25,117	175,000	54,552		
2013.....	65,000	22,777	175,000	46,072		
2014.....	65,000	20,145	165,000	37,530		
2015.....	70,000	17,415	175,000	29,350		
2016.....	70,000	14,405	180,000	20,565		
2017.....	75,000	11,290	75,000	11,290		
2018.....	80,000	7,840	80,000	7,840		
2019.....	85,000	4,080	85,000	4,080		
TOTAL	\$ 950,000	\$ 345,070	\$ 2,628,000	\$ 845,761		

NOTE 4 - PENSION AND RETIREMENT BENEFITS:

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$13,627, \$14,120, and \$12,825, respectively, equal to the required contributions for each year.

NOTE 5 - COMPENSATED ABSENCES:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004 is as follows:

Type of Benefit	Amount
Vacation	\$ 2,828

This liability has been computed based on rates of pay as of June 30, 2004.

As sick leave is not payable upon termination, retirement or death, the minimum accumulated sick leave is not presented as part of these financial statements.

NOTE 6 - RISK MANAGEMENT:

The City of Paullina is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – TELECOMMUNICATIONS PROJECT:

On May 2, 1999 the City of Paullina entered into a Joint Public Improvement agreement with other communities in O'Brien County, under Chapter 28E of the Code of Iowa, to acquire property and construct facilities to provide telecommunication services to the cities. Each party is responsible for retiring its portion of the debt incurred. The Community Cable Television Agency of O'Brien County is controlled by a jointly appointed Board of Directors and is operated apart from the City's operations. The financial information for the Community Cable Television Agency is not included in the City's financial statements.

NOTE 8 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004, is as follows:

<u>Transfer to:</u>	<u>Transfer from:</u>	<u>Amount</u>
General	Special revenue:	
	Emergency	\$ 4,647
	Local option sales tax	70,339
		<u>\$ 74,986</u>
Debt service	Urban renewal tax increment	\$ 15,000
	Special revenue:	
	Local option sales tax	3,274
	Enterprise	
	Water	8,200
	Electric	5,044
		<u>\$ 31,518</u>
Sewer	Enterprise:	
	Electric	\$ 45,608
	Total	<u>\$ 152,112</u>

NOTE 9 – ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a governmentwide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities

REQUIRED SUPPLEMENTARY INFORMATION

City of Paullina
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances-
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted	<u>Net</u>	<u>Budgeted Amounts</u>		Final to Net <u>Variance</u>
					<u>Original</u>	<u>Final</u>	
Receipts:							
Property tax	\$ 211,872	\$ -0-	\$ -0-	\$ 211,872	\$ 209,306	\$ 209,306	\$ 2,566
Tax increment financing collections	17,614	-0-	-0-	17,614	15,000	15,000	2,614
Other city tax	73,613	-0-	-0-	73,613	69,701	69,701	3,912
Licenses and permits	3,624	-0-	-0-	3,624	2,165	2,165	1,459
Use of money and property	21,065	-0-	-0-	21,065	74,637	74,637	(53,572)
Intergovernmental	103,234	-0-	-0-	103,234	121,900	121,900	(18,666)
Charges for service	96,680	1,014,167	-0-	1,110,847	895,262	1,826,357	(715,510)
Special assessments	75,451	-0-	-0-	75,451	75,483	75,483	(32)
Miscellaneous	60,055	-0-	-0-	60,055	20,370	52,660	7,395
Total receipts	<u>\$ 663,208</u>	<u>\$ 1,014,167</u>	<u>\$ -0-</u>	<u>\$ 1,677,375</u>	<u>\$ 1,483,824</u>	<u>\$ 2,447,209</u>	<u>\$ (769,834)</u>
Disbursements:							
Public safety	\$ 228,346	\$ -0-	\$ -0-	\$ 228,346	\$ 176,915	\$ 241,545	\$ 13,199
Public works	202,675	-0-	-0-	202,675	255,832	255,832	53,157
Health and social services	3,750	-0-	-0-	3,750	2,000	4,000	250
Culture and recreation	80,087	-0-	-0-	80,087	70,789	70,789	(9,298)
Community and economic development	368	-0-	-0-	368	1,000	1,000	632
General government	67,830	-0-	-0-	67,830	121,652	121,652	53,822
Debt service	117,557	-0-	-0-	117,557	117,558	117,558	1
Business type activities	-0-	1,060,306	-0-	1,060,306	1,230,569	2,077,184	1,016,878
Total disbursements	<u>\$ 700,613</u>	<u>\$ 1,060,306</u>	<u>\$ -0-</u>	<u>\$ 1,760,919</u>	<u>\$ 1,976,315</u>	<u>\$ 2,889,560</u>	<u>\$ 1,128,641</u>
Excess (deficiency) of receipts over disbursements	\$ (37,405)	\$ (46,139)	\$ -0-	\$ (83,544)	\$ (492,491)	\$ (442,351)	\$ 358,807
Other financing sources, net	13,244	71,236	-0-	84,480	200	200	84,280
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	\$ (24,161)	\$ 25,097	\$ -0-	\$ 936	\$ (492,291)	\$ (442,151)	\$ 443,087
Balances beginning of year	674,799	1,235,061	-0-	1,909,860	1,656,336	1,656,336	253,524
Balances end of year	<u>\$ 650,638</u>	<u>\$ 1,260,158</u>	<u>\$ -0-</u>	<u>\$ 1,910,796</u>	<u>\$ 1,164,045</u>	<u>\$ 1,214,185</u>	<u>\$ 696,611</u>

See accompanying independent auditor's report.

City of Paullina

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$913,245. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Culture and recreation function.

OTHER SUPPLEMENTARY INFORMATION

City of Paullina

Statement of Cash Receipts, Disbursements
And Changes in Cash BalancesNonmajor Governmental Funds
Year Ended June 20, 2004

	<u>Emergency</u>	<u>Employee Benefits</u>	<u>Local Option Sales Tax</u>	<u>Capital Projects</u>	<u>Total</u>
Receipts:					
Property taxes	\$ 4,633	\$ 33,113	\$ -0-	\$ -0-	\$ 37,746
Other city tax	-0-	-0-	73,613	-0-	73,613
Use of money and property:	14	59	-0-	81	154
Total receipts	<u>\$ 4,647</u>	<u>\$ 33,172</u>	<u>\$ 73,613</u>	<u>\$ 81</u>	<u>\$ 111,513</u>
Disbursements:					
Operating					
Public safety	\$ -0-	\$ 26,857	\$ -0-	\$ -0-	\$ 26,857
Public works	-0-	153	-0-	-0-	153
Health and social services	-0-	-0-	-0-	-0-	-0-
Culture and recreation	-0-	3,038	-0-	-0-	3,038
General government	-0-	936	-0-	-0-	936
Debt service	-0-	-0-	-0-	-0-	-0-
Total disbursements	<u>\$ -0-</u>	<u>\$ 30,984</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 30,984</u>
Excess (deficiency) of receipts over disbursements	\$ 4,647	\$ 2,188	\$ 73,613	\$ 81	\$ 80,529
Other financing sources (uses)					
Transfers in (out)	(4,647)	-0-	(73,613)	-0-	(78,260)
Net changes in cash balances	\$ -0-	\$ 2,188	\$ -0-	\$ 81	\$ 2,269
Cash balances beginning of year	-0-	9,250	-0-	11,328	20,578
Cash balances end of year	<u>\$ -0-</u>	<u>\$ 11,438</u>	<u>\$ -0-</u>	<u>\$ 11,409</u>	<u>\$ 22,847</u>
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ -0-	\$ 11,438	\$ -0-	\$ -0-	\$ 11,438
Capital project fund	-0-	-0-	-0-	11,409	11,409
Total cash basis fund balances	<u>\$ -0-</u>	<u>\$ 11,438</u>	<u>\$ -0-</u>	<u>\$ 11,409</u>	<u>\$ 22,847</u>

See accompanying independent auditor's report.

CITY OF PAULLINA
Statement of Indebtedness
Year Ended June 30, 2004

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General Obligation Notes:									
Street Improvements	April 1, 1994	4.25-5.75%	\$ 290,000	\$ 70,000	\$ -0-	\$ 35,000	\$ 35,000	\$ 4,008	\$ -0-
Essential Corporate Purpose	May 1, 1999	4.10-4.75%	340,000	260,000	-0-	35,000	225,000	11,830	-0-
Essential Corporate Purpose	June 1, 2003	3.60-5.20%	135,000	135,000	-0-	10,000	125,000	6,270	-0-
			<u>\$ 765,000</u>	<u>\$ 465,000</u>	<u>\$ -0-</u>	<u>\$ 80,000</u>	<u>\$ 385,000</u>	<u>\$ 22,108</u>	<u>\$ -0-</u>
Special Assessment Notes:									
Street Improvements	June 1, 2002	3.75-5.60%	<u>\$ 93,000</u>	<u>\$ 90,000</u>	<u>\$ -0-</u>	<u>\$ 10,000</u>	<u>\$ 80,000</u>	<u>\$ 4,400</u>	<u>\$ -0-</u>
Revolving Loan Fund:									
Sewage Treatment Works	February 13, 1999	4.19%	<u>\$ 418,000</u>	<u>\$ 230,000</u>	<u>\$ -0-</u>	<u>\$ 42,000</u>	<u>\$ 188,000</u>	<u>\$ 9,637</u>	<u>\$ -0-</u>
Electric Revenue:									
Capital Loan Notes	February 1, 2001	4.70-5.60%	<u>\$1,200,000</u>	<u>\$1,085,000</u>	<u>\$ -0-</u>	<u>\$ 60,000</u>	<u>\$1,025,000</u>	<u>\$ 57,133</u>	<u>\$ -0-</u>
Telecommunications									
Revenue Project Notes									
Temporary Financing	February 1, 2003	3.5%	<u>\$ 840,000</u>	<u>\$ 840,000</u>	<u>\$ -0-</u>	<u>\$ 840,000</u>	<u>\$ -0-</u>	<u>\$ 6,615</u>	<u>\$ -0-</u>
Revenue Capital Notes	April 1, 2004	1.80-4.80%	<u>\$ 950,000</u>	<u>\$ -0-</u>	<u>\$ 950,000</u>	<u>\$ -0-</u>	<u>\$ 950,000</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

See accompanying independent auditor's report.

City of Paullina

Bond and Note Maturities

June 30, 2004

Year Ending June 30,	<u>General Obligation Bond</u> <u>Street Improvements</u> <u>Issued 4-1-94</u>		<u>General Obligation</u> <u>Capital Loan Notes</u> <u>Issued 5-1-99</u>		<u>General Obligation</u> <u>Street Project</u> <u>Issued 6-1-02</u>		Total	<u>Special Assessment</u> <u>Capital Loan</u> <u>Street Improvement</u> <u>Issued 6-1-02</u>		<u>Revolving Loan</u> <u>Capital Loan</u> <u>Sewage Treatment</u> <u>Issued 2-13-99</u>		<u>Electric Revenue</u> <u>Capital Loan Notes</u> <u>Issued 2-13-99</u>	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	5.75%	\$ 35,000	4.45%	\$ 35,000	3.90%	\$ 10,000	\$ 80,000	4.25%	\$ 10,000	4.19%	\$ 44,000	4.95%	\$ 65,000
2006	--	--	4.50%	35,000	4.20%	10,000	45,000	4.50%	10,000	4.19%	46,000	5.00%	70,000
2007	--	--	4.55%	35,000	4.40%	15,000	50,000	4.75%	10,000	4.19%	48,000	5.05%	70,000
2008	--	--	4.60%	40,000	4.60%	15,000	55,000	5.00%	10,000	4.19%	50,000	5.10%	75,000
2009	--	--	4.65%	40,000	4.80%	15,000	55,000	5.15%	10,000	--	--	5.15%	80,000
2010	--	--	4.75%	40,000	4.90%	15,000	55,000	5.30%	10,000	--	--	5.20%	80,000
2011	--	--	--	--	5.00%	15,000	15,000	5.45%	10,000	--	--	5.30%	85,000
2012	--	--	--	--	5.10%	15,000	15,000	5.60%	10,000	--	--	5.35%	90,000
2013	--	--	--	--	5.20%	15,000	15,000	--	--	--	--	5.40%	95,000
2014	--	--	--	--	--	--	--	--	--	--	--	5.45%	100,000
2015	--	--	--	--	--	--	--	--	--	--	--	5.50%	105,000
2016	--	--	--	--	--	--	--	--	--	--	--	5.60%	110,000
		<u>\$ 35,000</u>		<u>\$ 225,000</u>		<u>\$ 125,000</u>	<u>\$ 385,000</u>		<u>\$ 80,000</u>		<u>\$ 188,000</u>		<u>\$ 1,025,000</u>
<u>Telecommunications</u> <u>Revenue Capital</u> <u>Loan Note</u> <u>Issued 4-1-04</u>													
Year Ending June 30,	Interest Rates	Amount											
2005	1.80%	\$ 50,000											
2006	2.15%	50,000											
2007	2.50%	55,000											
2008	2.85%	55,000											
2009	3.20%	55,000											
2010	3.40%	55,000											
2011	3.70%	60,000											
2012	3.90%	60,000											
2013	4.05%	65,000											
2014	4.20%	65,000											
2015	4.30%	70,000											
2016	4.45%	70,000											
2017	4.60%	75,000											
2018	4.70%	80,000											
2019	4.80%	85,000											
		<u>\$ 950,000</u>											

See accompanying Independent Auditor's Report.

City of Paullina**Schedule of Receipts By Source and Disbursements By Function-
All Governmental Funds**

For the Last Four Years

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts:				
Property tax	\$ 211,872	\$ 228,905	\$ 216,410	\$ 232,039
Tax increment financing collections	17,614	-0-	-0-	-0-
Other city tax	73,613	74,835	72,757	70,132
Licenses and permits	3,624	761	739	1,282
Use of money and property	21,065	25,822	39,414	47,626
Intergovernmental	103,234	116,254	118,119	122,437
Charges for service	96,680	88,145	92,306	68,212
Special assessments	75,451	86,484	86,012	76,471
Miscellaneous	<u>60,055</u>	<u>40,925</u>	<u>117,978</u>	<u>30,413</u>
Total	<u>\$ 663,208</u>	<u>\$ 662,131</u>	<u>\$ 743,735</u>	<u>\$ 648,612</u>
Disbursements:				
Operating:				
Public safety	\$ 228,346	\$ 161,320	\$ 151,746	\$ 154,437
Public works	203,043	184,518	110,858	126,916
Health and social services	3,750	-0-	-0-	-0-
Culture and recreation	80,087	76,330	82,986	67,057
Community and economic development	-0-	8,801	3,929	5,000
General government	67,830	61,439	59,266	58,691
Debt service	117,557	91,368	82,288	347,643
Capital projects	<u>-0-</u>	<u>9,994</u>	<u>330,889</u>	<u>48,255</u>
Total	<u>\$ 700,613</u>	<u>\$ 593,770</u>	<u>\$ 821,962</u>	<u>\$ 807,999</u>

See accompanying independent auditor's report.

City of Paullina

Statement of Cash Receipts, Disbursements
And Changes in Cash BalancesGeneral Fund
Year Ended June 30, 2004

	<u>General</u>	<u>Library</u>	<u>Total</u>
Receipts:			
Property tax	\$ 164,002	\$ -0-	\$ 164,002
Licenses and permits	3,624	-0-	3,624
Use of money and property:			-0-
Interest	4,638	-0-	4,638
Rent	14,212	-0-	14,212
Intergovernmental:			-0-
Bank franchise	4,119	-0-	4,119
County	-0-	5,500	5,500
Charges for service:			
Garbage	67,974	-0-	67,974
Ambulance	28,706	-0-	28,706
Library fees			-0-
Miscellaneous:			
Reimbursements	41,954	369	42,323
Donations and grants	9,604	-0-	9,604
Miscellaneous	<u>6,895</u>	<u>1,233</u>	<u>8,128</u>
Total receipts	<u>\$ 345,728</u>	<u>\$ 7,102</u>	<u>\$ 352,830</u>
Disbursements:			
Public safety:			
Police	\$ 89,021	\$ -0-	\$ 89,021
Fire	94,458	-0-	94,458
Ambulance	17,881	-0-	17,881
Animal control	129	-0-	129
Public works:			
Solid waste	60,256	-0-	60,256
Airport	6,713	-0-	6,713
Street maintenance	29,990	-0-	29,990
Street lights	7,771	-0-	7,771
Traffic safety	246	-0-	246
Miscellaneous	2,243	-0-	2,243
Health and social services	3,750	-0-	3,750
Culture and recreation:			
Recreation	12,000	-0-	12,000
Parks	1,813	-0-	1,813
Cemetery	5,000	-0-	5,000
Library	24,314	33,922	58,236
Community and economic development	368	-0-	368
General government			
Mayor - council	12,396	-0-	12,396
City clerk	21,362	-0-	21,362
Professional services	5,790	-0-	5,790
General	18,018	-0-	18,018
City Hall	<u>9,328</u>	<u>-0-</u>	<u>9,328</u>
Total disbursements	<u>\$ 422,847</u>	<u>\$ 33,922</u>	<u>\$ 456,769</u>
Excess (deficiency) of receipts over disbursements	\$ (77,119)	\$ (26,820)	\$ (103,939)
Other financing sources (uses)			
Transfers in (out)	<u>55,161</u>	<u>19,825</u>	<u>74,986</u>
Net	\$ (21,958)	\$ (6,995)	\$ (28,953)
Cash balances beginning of year	<u>201,581</u>	<u>36,770</u>	<u>238,351</u>
Cash balances end of year	<u>\$ 179,623</u>	<u>\$ 29,775</u>	<u>\$ 209,398</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	<u>\$ 179,623</u>	<u>\$ 29,775</u>	<u>\$ 209,398</u>

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council
City of Paullina
Paullina, Iowa

I have audited the financial statements of the City of Paullina, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated August 2, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Paullina's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Paullina's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Paullina's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 04-I-A is a material weakness. Prior year reportable conditions have been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paullina and other parties whom the City of Paullina may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Paullina during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

DAVID A. MASKE
Certified Public Accountant

August 2, 2004

CITY OF PAULLINA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

PART I - FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- 04-I-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response accepted.

PART II - OTHER FINDINGS RELATED TO STATUTORY REPORTING:

- 04-II-A Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

- 04-II-B Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the Culture and recreation function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget was amended, however we were not aware this function was in excess of budget.

Conclusion - Response accepted.

- 04-II-C Questionable Disbursements – I noted no disbursements that did not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

- 04-II-D Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- 04-II-E Business Transactions - There were no business transactions between the City and City officials or employees noted.

- 04-II-F Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- 04-II-G Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- 04-II-H Revenue Notes - The City was in compliance with the requirements of its revenue notes.
- 04-II-I Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policies.